First Trust

Weekly Market Commentary

Week Ended April 14, 2022

US Economy and Credit Markets

Yields and Weekly Changes:

3 Mo. T-Bill:	0.749 (5.6 bps)	Bond Buyer 40 Yield:	4.06 (8 bps)
6 Mo. T-Bill:	1.203 (6.9 bps)	Crude Oil Futures:	106.95 (8.69)
1 Yr. T-Bill:	1.698 (-5.5 bps)	Gold Spot:	1,978.24 (30.7)
2 Yr. T-Note:	2.454 (-4.4 bps)	Merrill Lynch High Yield Indices:	
3 Yr. T-Note:	2.680 (-4.1 bps)	U.S. High Yield:	6.51 (5 bps)
5 Yr. T-Note:	2.787 (-0.1 bps)	BB:	5.45 (5 bps)
10 Yr. T-Note:	2.827 (4.7 bps)	B:	6.95 (4 bps)
30 Yr. T-Bond:	2.915 (10.6 bps)		

Inflation running at 40-year highs has the market anticipating a strong Federal Reserve response that has left bond prices lower as required yield has gone up. Unemployment remains very low, but inflation was reported rising 8.5% year over year, last week. This high reading, and low unemployment, leave the Federal Reserve with clear impetus to raise rates, and fast. As it stands, the Federal Funds Rate is still at 0.50 as the Federal Reserve was cautious during the last meeting due to developing conditions surrounding Ukraine. The market does not expect this caution to last and yields have been rapidly rising since the last meeting. Since the March 15 meeting, the 10-year has moved from 2.144 to 2.827 and the 30 year has seen its yield rise from 2.478 to 2.915. Coming off record low yields, bond price sensitivity to change in yield is reflected in performance. For the US Treasury Note/Bond due 02/15/32, total return from March 15 through April 14 of this year was -5.71%. For the same period, the S&P 500 Index returned 3.16%; perhaps as investors shun yields which are well below the observed rate of inflation. Last week saw the interest rates on the popular 30-year fixed rate mortgage surpass 5.0%. This is the highest rate the 30 year has sported since 2011. 4% was only just recently pierced, in mid-March! Mr. Market has tightened conditions considerably, which could damper home sales but has already caused refinancing activity to plummet. Major economic reports (related consensus forecasts, prior data) for the upcoming week include Tuesday: March Housing Starts (1,739k, 1,769k); Wednesday: April 15 MBA Mortgage Applications (n/a, -1.3%) and March Existing Home Sales (5.77m, 6.02m); Thursday: April 16 Initial Jobless Claims (n/a, 185k) and the March Leading Index (0.3%, unch.); Friday: April preliminary S&P Global US Manufacturing PMI (58.0, 58.8)

US Equities

Weekly Index Performance:		Market Indicators:	
DJIA:	34,451.23 (-0.78%)	Strong Sectors:	Materials, Industrials
S&P 500:	4,392.59 (-2.11%)		Energy
S&P Midcap:	2,628.61 (0.46%)	Weak Sectors:	Health Care, Comm. Services
S&P Smallcap:	1,284.28 (0.92%)		Info Tech
NASDAQ Comp:	13,351.08 (-2.62%)	NYSE Advance/Decline:	1,587/1,720
Russell 2000:	2,004.98 (0.53%)	NYSE New Highs/New Lows:	68/261
		AAII Bulls/Bears:	15.8%/48.4%

The S&P 500 Index declined for a second straight week as the market offered sparse optimism to investors with inflation still climbing and Q2 earnings reports that have been mixed. The March CPI YoY figure of 8.5% exceeded expectations as inflation continues to rise to levels not seen since the early 1980s. Producers were spared no harm as the PPI Final Demand YoY Index also touched a new high of 11.2%. Materials was the best performing sector in the S&P 500 during the week while Information Technology lagged. The yield on the ten-year treasury bill climbed to 2.83%, over 100bps higher than a year ago, which was a headwind for growth stocks during the week. Oil spiked over $10/barrel over three days as peace talks between Russia and Ukraine stalled, helping Energy stocks beat the market this week. J.P. Morgan (JPM, -5.52%) kicked off the 2Q22 earnings season with quarterly profit that was 42% lower than a year ago. The largest bank in the U.S. cited an increase in reserves to account for heightened risks and reduced investment banking activity as the reasons for the pullback in earnings. Wells Fargo, Goldman Sachs, and Citigroup all similarly reported disappointing earnings as the pandemic boom of frenetic trading, a hot IPO market, and a season of highly profitable mortgage lending have normalized. Airlines got a boost due to upbeat earnings from Delta Airlines (DAL, 15.3%) which foreshadowed a return to profitability in the following quarter. Twitter (TWTR, -2.49%) was likely the most attention-grabbing story of the week as activist billionaire Elon Musk, who disclosed last week that he acquired nearly 10% of the company, declined a position on Twitter's board of directors and made an offer to buy out the rest of the company at a $40B valuation. Twitter shares closed Friday at a 20% discount to Musk's offering price as it's still uncertain whether the offer will be accepted by a majority of shareholders. Earnings to watch in the coming week include Financials companies Bank of America and Charles Schwab as well as Communication Services companies Netflix, AT&T, and Verizon.